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SUBJECT: THAI TELECOM PROVIDERS LOOK FORWARD TO 3G, WIMAX LICENSES,
LIBERATION FROM CONCESSIONS

11. Summary: After years of delays, Thailand's National Telecommunications Commission is moving ahead with drafting procedures to issue licenses to telecom providers to roll out 3G and Broadband Wireless Access (BWA) services. A number of companies are already testing Wimax wireless broadband services in anticipation of the licenses. The principal mobile telecom providers are considering plans to build 3G telecom networks on their existing frequencies, but would prefer to acquire licenses on the 2.1 GHz frequency. Operating on 2.1 GHz would provide better quality service, but more importantly would serve to wean the telcos away from costly concessionary deals with state-owned telecom companies on the current networks. The SOEs may be faced with a potentially massive loss of revenue which would force them to drastically change their business model. Suggested talking points for the upcoming APEC telecom ministerial are in para 13. End Summary.

U.S. industry looking forward to next gen licenses

12. Licenses for third generation (3G) telecommunications services and broadband wireless access, particularly WiMax, may be on the way after long delays. The National Telecommunications Commission, Thailand's independent telecom regulator, is moving ahead with drafting licensing frameworks for 3G and WiMax and expects to begin issuing them in the latter part of the year. In addition, the Ministry of Information, Communication and Technology (MICT) gave the green light in March to private mobile providers to upgrade existing networks with 3G technology.

13. 3G licenses had been delayed for years due to the lack of a proper regulatory authority. The Frequency Allocation Act of 2000 required the establishment of a National Telecommunications Commission (NTC) and a National Broadcast Commission (NBC) to manage the broadcasting and telecom spectrum and develop regulations regarding their use. The NTC was established in 2004, but political infighting prevented the timely establishment of the NBC. As 3G technology includes both telecom and broadcast capabilities, the NTC declined to issue licenses until it could coordinate with the NBC, putting on ice private sector plans to develop the new technology. A new Constitution in 2007 called for a National Broadcasting and Telecommunication Commission (NBTC) to be established that would regulate both broadcast and telecom, but until it comes into being the NTC continues to regulate the telecom industry. In August 2006 the Council of State, Thailand's legal advisory body, ruled that the NTC had the authority to act on new 3G licenses. However, the NTC moved forward tentatively, particularly after a military coup the following month, and only recently began making progress on drafting a licensing framework.

14. U.S. industry is eagerly awaiting commercial opportunities in Thailand's next generation telecom and broadband market. Although no U.S. telecom providers participate in the Thai mobile market or

have shown an active interest in doing so, a number of U.S. telecom equipment providers stand to benefit. U.S.-based Cisco and Motorola are major providers of telecom equipment to existing mobile providers in Thailand and would compete for contracts to supply switches, routers and other equipment to build out new 3G networks. Motorola works closely with companies likely to begin WiMax networks, and would provide equipment, network services and after-sales support. Qualcomm is looking forward to Thailand's 50 million cell phone holders buying new 3G-capable phones that use their chipsets, plus earning royalties on the sale of telecom equipment that they have licensed to third party manufacturers.

WiMax trials underway, but no licenses yet

15. The NTC has issued permits for twelve operators to conduct trials for WiMax services, but is still working on procedures for actual licenses. NTC Secretary General Suranan Wongvithayakamjorn told Econoff that the regulator expected to receive reports on the results of the trials from the companies by June and would submit the results to the NTC's Commissioners. After a public hearing period the NTC would formulate procedures for issuing WiMax licenses and would invite proposals from companies. Suranan expected to be able to issue licenses by the fourth quarter of 2008.

16. Industry views WiMax as an opportunity to expand into broadband services without being burdened by a joint venture with the state-owned telecom TOT, which owns most of the fixed line network in Thailand. The market potential for broadband is substantial. Of approximately 15 million internet users in Thailand, only about one million use broadband. With WiMax services companies hope to expand broadband access to areas of the country where fixed line penetration is low but internet demand is high, including the suburbs of Bangkok and provincial cities like Phuket. Motorola

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estimates that the companies it works with could roll out WiMax networks within three months after receiving a license.

17. Numerous companies have shown interest in rolling out Wimax services, but narrow frequencies means not all will be able to acquire licenses. Wimax typically operates on the 2.3, 2.5 and 3.5 GHz frequencies, but in Thailand those frequencies are mostly already in use by the military, broadcasters or other operators. Shin Satellite is testing whether Wimax on the 3.5 GHz frequency would affect its satellite services. Without a restructuring of the frequency spectrum the opportunities for obtaining a license could be limited.

3G licensing procedures still under consideration

18. The lack of a broadcast regulator held up consideration of 3G licenses for years, but the 2006 ruling by the Council of State that the NTC had sufficient authority to issue licenses has cleared the way. NTC Secretary General Suranan said the NTC had contracted in March with a consultant to recommend on terms and conditions for issuing licenses. The NTC will develop criteria based on the recommendations and hope to begin issuing licenses within the year.

19. Suranan said that three blocks are open on the 2.1 GHz range for 3G use and the NTC is considering whether to issue a license for each of the three blocks or only one. Deciding the terms and conditions will be the NTC's biggest challenge. The NTC is considering whether to auction licenses to the highest bidders, or conduct a "beauty contest" whereby companies would submit their 3G proposals and the best proposal would win the license. Transparency will be an issue and accusations are almost certain to fly if one company is seen to be favored over others. The three major mobile providers, AIS, DTAC and True, who together control nearly the entire mobile market are interested and are expected to apply for licenses. Suranan acknowledged that new players in the market may be squeezed out by the big three and expected there would be debate on this topic at public hearings.

3G market small, but beside the point

¶10. Telecom analysts see the market for 3G services in Thailand as relatively small, but one analyst noted to Econoff that the size of the market would be less interesting to mobile providers than the prospect of operating new networks independent of state-owned telcos TOT and CAT. Thailand's major mobile providers labor under Build-Transfer-Operate (BTO) arrangements, where the state-owned companies own the networks and the private telcos operate them under a concession. Companies pay between 20 and 25 percent of their revenues directly to the SOEs, plus monthly access charges for use of the networks. The concessions end between 2013 and 2016.

¶11. With a 3G license on the 2.1 GHz range, mobile providers would be able to operate a new network on a superior frequency for telecom services, and at the same time migrate their subscribers from current 2G networks to a new 3G network, slowly reducing the costly revenue sharing and access fees they pay to the TOT and CAT. Fees for a 3G license and a Universal Service Obligation fee would total only 6.5 percent of revenues, a sharp reduction in costs for the mobile providers. Building an entire new network rather than building on top of the current 2G network would be costly and time consuming for the companies. However, the prospect that the SOEs could lose their main sources of revenue could be used as a negotiating tool to end the current concessions and convert them to rental contracts for the equipment the state-owned telcos still own. Over time even these contracts would fade as equipment is upgraded. In the meantime, AIS and DTAC have announced intentions to upgrade current networks in select markets to 3G on the 900 MHz and 850 MHz frequencies they currently use. One telecom analyst speculated that expenditures would not be great as the companies gauge market demand.

¶12. Thailand has made efforts over recent years to privatize the state-owned telcos, but without success. TOT and CAT Telecom were corporatized in 2003 but the RTG was unable to fully privatize the two companies as committed to in the WTO. Both remain inefficient (but politically well-connected) bureaucracies which depend heavily on the revenue sharing and other fees they collect from private companies, rather than their own business areas. The prospect of losing their hold on the private providers may finally force a change in the SOEs' business strategy. NTC's Suranan said TOT and CAT are beginning to realize they can no longer operate as monopolies and must compete with private telcos. He was optimistic that they would have time to restructure as the private companies rolled out 3G networks over the next two years.

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Talking points for Telmin 7

¶13. In anticipation of the upcoming APEC Ministerial for Telecommunications and Information in Bangkok on April 23-25, post recommends the following talking points for use in bilateral meetings with RTG telecom officials and regulators.

-- Encourage MICT and NTC to move forward quickly on issuance of 3G licenses in the 2.1 GHz band. Drafting of licensing procedures should be open and transparent.

-- Support development of licensing framework for Broadband Wireless Access technologies. Wireless broadband networks will open internet access to a broader spectrum of Thai society.

-- Note that Thailand's competitors in the region have already made broad advances in rolling out new 3G and wireless broadband technologies which are helping draw investment. Expedited issuance of licenses in these areas will drive investment in modern telecommunications networks in Thailand and provide better services for industry and Thai consumers.

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